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C O N F I D E N T I A L SECTION 01 OF 03 ALMATY 001237

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TAGS: [ENRG](#) [EPET](#) [KZ](#) [PGOV](#)

SUBJECT: KAZAKHSTAN: KULIBAYEV DISCUSSES ENERGY WITH
AMBASSADOR

REF: A. ALMATY 1086

[1](#)B. ALMATY 1085

[1](#)C. ALMATY 886

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Classified By: AMBASSADOR JOHN ORDWAY FOR REASONS 1.4(B) and (D)

[1](#)1. (C) Summary: During a wide-ranging discussion of energy issues with the Ambassador on March 30, Timur Kulibayev (President Nazarbayev's son-in-law) confirmed rumors that he would serve as Vice-President of Samruk, the newly-created state holding company. Kulibayev voiced optimism that the BTC-IGA negotiations would be concluded soon, telling the Ambassador that, in his view, recent Azeri edits to the initialed agreement would not pose an obstacle to signature. He was less optimistic about agreement on CPC expansion, warning that if the impasse were not resolved before TransNeft took over Russia's CPC share, TransNeft's president could delay a resolution for "years." Kulibayev confirmed other reports (reftels) that the Russians appeared to be favoring a Burgas-Alexandroupolis Bosphorus bypass route, but noted that the GOK favored the Samsun-Ceyhan alternative, as a means of creating a "Caspian blend" of crude for sale on world markets.

[1](#)2. (C) Summary (continued): Kulibayev described KazMunaiGaz's (KMG) negotiations to buy Lithuania's Mazeikiu Nafta refinery as going "badly," explaining that a signed agreement with TransNeft to supply the refinery with Kazakhstani crude had been scuttled by high-ranking Russian authorities. Kulibayev welcomed the idea of a Trans-Caspian gas pipeline connecting Kazakhstan and Azerbaijan; however, the project's dependence in its early years on Turkmenbashi's provision of gas, along with the legal issue of Caspian delimitation, were significant obstacles that would have to be overcome. Regarding ConocoPhillips' (CP) bid for the offshore "N Block," Kulibayev said that CP's bid, recently improved, was now effectively identical to rival Shell's; however, there was no clear reason for KMG to suspend its ongoing negotiations with Shell. End Summary.

TK Confirms Role in State Holding Company

13. (C) Kulibayev confirmed the widespread rumors that he would serve as Vice-President of Samruk, the new State Holding Company, with responsibility for managing energy assets. (Samruk's initial holdings will include KazMunaiGaz (KMG); KazakhstanTemirZholy (railroad), KEGOC (the electricity grid operating company), KazakhTelecom, and the postal service, KazPost.) Kulibayev praised Samruk's president, former Industry and Trade Minister Sauat Mynbayev, as a "very capable executive." Kulibayev justified Samruk's creation by pointed out the advantage of separating regulation of the state companies (performed by the ministries) from management of those companies from a business perspective (to be performed by Samruk). Kulibayev acknowledged that further privatization of the state holdings was planned, but noted that privatization would proceed on a "case-by-case" basis. Complete privatization of KazakhTelecom, for example, would be "easy," he said, given the already-existing private telecom market.

Status of BTC-IGA

14. (C) Kulibayev told the Ambassador that he thought the BTC-IGA negotiations would soon be concluded. He was familiar with the recent changes proposed by the Azeris, he said, and they didn't appear "huge." Kulibayev then offered the Ambassador insight into the GOK's May 2005 last-minute reversal of its agreement to sign a draft BTC-IGA. The reversal, he said, occurred after Prime Minister Akhmetov and the Ministry of Energy and Mineral Resources (MEMR) accused Kulibayev and KMG President Kairgildy Karabalin of "treason" for having conceded too much in the IGA. As a consequence, Kulibayev said, "the President pulled back." However, Kulibayev noted, his vision had eventually won out.

15. (C) Kulibayev remarked that he was "reasonably confident"

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that Kazakhstan would find the necessary outlets for its oil. However, he said, a recent new oil discovery in Azerbaijan's offshore zone would necessitate the building of a "second BTC." (Comment: We do not know what discovery he was referring to. End comment.) Kulibayev speculated that Kazakhstan might consider shipping more oil to Iran, then concluded that, in fact, the GOK was unlikely in the short-run to do more with Iran than conduct swaps.

CPC Expansion Negotiations and Bosphorus Options

16. (C) Kulibayev was less sanguine about prospects for resolving the impasse on CPC expansion, telling the Ambassador that, if the deal were not completed before the Russian government's share in the consortium was transferred to TransNeft, TransNeft's Seymon Vaynshtok would delay a resolution for two to three years while "redoing everything." On the positive side, the issue was high on Nazarbayev's agenda for his meeting the following week with Putin. Kulibayev lamented that the GOK had been "unlucky" with some of its TengizChevroil partners. The GOK had signed a contract with Mobil -- a "nice" company -- only to end up dealing with Exxon, a company which was, in Kulibayev's words, "bureaucratic, ideological, and inflexible." If progress were to be made in the negotiations, Kulibayev concluded, Exxon would have to be persuaded to be more flexible.

17. (C) Kulibayev told Ambassador that he was well-aware of the recent Russian efforts to link CPC expansion to the building of a Burgas-Alexandroupolis bypass pipeline (reftels). Kulibayev remarked that the GOK, by contrast, favored a Samsun-Ceyhan route, in order to be able to create and market a "Caspian blend" of crude.

N Block: No Difference Between Bidders

¶18. (C) Kulibayev told the Ambassador that he was well-aware of recent USG advocacy efforts on behalf of CP's bid for the offshore "N" Block. Initially, he said, Shell had submitted a superior commercial bid, but after CP improved its offer, the two bids became practically indistinguishable. Still, he said, KMG had begun negotiating with Shell, and would continue to do so. Asked about the Energy Minister's recent announcement that it would not offer any blocks for open tender in 2006, Kulibayev professed not to understand why the Ministry had chosen to delay, once again, the much-anticipated round of open tenders.

Mazeikiu Nafta

¶19. (C) Kulibayev described KMG's bid to buy Lithuania's Mazeikiu Nafta refinery as going "badly." TransNeft's Vaynshtok had signed a deal with KMG allowing KMG to supply the refinery with Kazakhstani crude, Kulibayev explained, only to renege. When asked why TransNeft had scuttled the agreement, he said, Vayhshtok had only shrugged and pointed upward. Kulibayev observed that Poland's PKN Orlen, which seemed to be in the lead for the bid, "had no oil." PKN Orlen "took a deal away from us" years ago in Czechoslovakia, he lamented. Ultimately, he said, the Government of Lithuania was likely to buy Yukos's share itself, then resell a minority share of the refinery.

Kazakhstan's Gas Plans

¶10. (C) Briefed by the Ambassador on USG interest in encouraging new sources and routes for gas supply to Europe, including a possible Kazakhstan-Azerbaijan Trans-Caspian gas pipeline, Kulibayev smiled. This is what we have always wanted, he said, but there are problems. The delimitation of the Caspian is "dead," he said, with the Iranians and Turkmen obstructing progress. Kulibayev scoffed at the Russian claim that an undersea gas pipeline posed environmental risks, but acknowledged that the Russians would use environmental

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arguments in an attempt to thwart a gas pipeline project. Nor did Kazakhstan have enough gas to fill a pipeline, Kulibayev added, necessitating Turkmenistan's involvement in the project. And no one wanted to deal with Turkmenbashi, he concluded.

¶11. (C) Kulibayev offered a surprisingly positive assessment of the terms being offered Kazakhstan for sale of its gas to the Orenburg processing plant. When we first began negotiating with Gazprom, he said, "they weren't serious." However, under recent terms, 25% of the Kazakhstani gas processed at Orenburg would be sold to the West, 25% within the CIS, and 50% would be returned to service Kazakhstan's domestic market. Speaking of Kazakhstan's internal energy needs, Kulibayev noted that the GOK was not in a position to gasify the country due to the prohibitive cost of building lengthy gas pipelines.

¶12. (C) Asked about prospects for a domestic petrochemical industry, Kulibayev waved off the validity of the multitude of feasibility studies already conducted on the subject, remarking that the studies all seemed to validate the prior opinions of their sponsors. In general, however, the idea of a petrochemical plant seemed feasible, as Karachaganak -- or even Tengiz or Kashagan -- could supply the low quantities of feedstock necessary to build a plant. Kulibayev remarked that Access President Len Blavatnik "seemed committed" in going forward with a Basel joint venture to construct a gas chemical complex in Atyrau.
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